

Status of Current Year (2003-04) Budget

In July of 2003, the Legislature enacted AB 1765 (Chapter 157, Statutes of 2003) – the Budget Act of 2003.

As part of the negotiated budget compromise the Legislature granted the Department of Finance (DOF) authority under Control Section 4.10 of the Budget Act to: (1) require savings, either through budget reductions or compensation concessions totaling approximately \$1.1 billion; (2) require reductions to appropriations totaling at least \$306 million of which at least \$181 million would be from the General Fund; and (3) require that at least 16,000 positions be abolished. In early November 2003, the DOF exercised this authority and reduced the current year budget accordingly.

In mid-November, newly elected Governor Schwarzenegger rolled back the vehicle license fee (VLF) rate immediately upon assuming office. According to the Legislative Analyst Office, this action created a current year deficit of approximately \$2.652 billion.

Concurrently, the Governor called the Legislature into Special Session to, among other things, appropriate General Fund monies to backfill the lost VLF revenue to local governments. In order to pay for the backfill, the Governor proposed mid-year reductions and other budget-related changes of approximately \$2.3 billion across all of state government.

In the absence of legislative action to ratify the proposed mid-year reductions and appropriate funding to backfill the lost VLF revenue to local government, the Governor, in mid-December took unilateral action under the auspices of Control Section 27.00 (deficiency authority) to appropriate the backfill funds to local governments. As part of the Governor's unilateral action, he reduced, via executive order, approximately \$150 million of the originally proposed \$2.3 billion in mid-year reductions. The Governor chose to make these reductions because they did not require the Legislature to approve any statutory changes. The remainder of the proposed reductions are pending legislative action.

Proposed Governor's 2004-05 Budget

Definition of the Problem. The Governor's proposed budget identifies that the state has an accumulative \$26.3 billion difference between revenues and expenditures for the three-year period ending on June 30, 2005.

How Does the Governor Close the Deficit? In eliminating the deficit, the Governor relies on the following primary strategies:

- Utilizing approximately \$12.3 billion in bond proceeds pursuant to the California Economic Recovery Bond Act (Chapter 2, Statutes of 2003, Fifth Extraordinary Session). This contributes nearly 47 percent of the entire budget solution.
- Scoring \$3.9 billion from the November mid-year reduction proposals.
- Proposed “Re-basing” of Proposition 98 (K-14 education) by \$2.9 billion.
- Reduce local government assistance by \$1.3 billion.
- \$1.3 billion in debt service saving resulting from the longer repayment period of the Economic Recovery Bond.
- \$900 million from the proposed suspension of Proposition 42.
- \$950 million from a “pension reform” package.
- \$2.8 billion in other miscellaneous transfers, fund shifts, and loans.

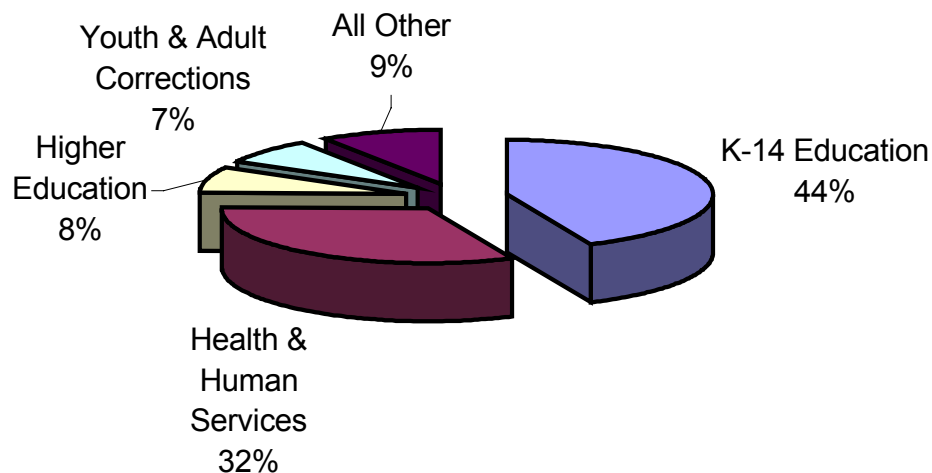
Overview of the Governor's Budget Proposal

General Fund Spending Concentrated in Four Areas. Four policy areas account for 90 percent of General Fund spending contained in the Governor's Budget. The chart shown below identifies the relative spending in these areas. Specifically, in the 2004-05 budget:

- K-12 Education receives \$33.2 billion, accounting for 44 percent of the General Fund spending,
- Health and Human Services receives \$24.6 billion, accounting for 32 percent of the total,
- Higher Education receives \$6.1 billion, account for 8 percent of the total, and
- Youth and Adult Corrections receives \$5.7 billion, accounting for 7 percent of the total.

Allocation of General Fund Spending

Governor's Budget
2004-05



State Spending Reduced from Current Year. The Governor proposes to reduce General Fund expenditures in the budget year, reducing expenditures from \$78 billion to \$76.1 billion, which represents a 2.5 percent reduction. The Department of Finance (DOF) estimates that revenues and transfers will increase from \$74.6 billion to about \$76.4 billion (a 2.4 percent increase). The following table shows a comparison of the current- and budget-year spending.

Comparison of General Fund Spending
2003-04 and 2004-05
(Dollars in Millions)

	<u>2003-04</u>	<u>2004-05</u>	<u>Change</u>
K-14 Education	\$ 31,418	\$33,152	5.5%
Higher Education	6,352	6,058	-4.6%
Health & Human Services	22,789	24,600	7.9%
Youth & Adult Corrections	5,326	5,732	7.6%
VLF Backfill	2,703	4,062	50.3%
STRS Contribution	510	1,057	107.3%
General Government	1,212	1,105	-8.8%
Use of Deficit Recovery Fund	3,012	-3,012	-200.0%
All Other	<u>4,706</u>	<u>3,308</u>	-29.7%
Totals	\$ 78,028	\$ 76,062	-2.5%